

**LINCOLN DOWNTOWN
DEVELOPMENT AUTHORITY
LINCOLN, MICHIGAN**

General Purpose Financial Statements
Year Ended April 30, 2008

STRALEY, ILSLEY & LAMP P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lincoln Downtown Development Authority
Lincoln, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lincoln Downtown Development Authority**, as of and for the year ended April 30, 2008, which collectively comprise the **Authority's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Lincoln Downtown Development Authority**, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Lincoln Downtown Development Authority**, as of April 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Lincoln Downtown Development Authority's** basic financial statements. The accompanying information identified in the table of contents as individual financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Straley, Hsley & Lamp

December 19, 2008

Lincoln Downtown Development Authority Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended April 30, 2008. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

This is the first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (MD&A). However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. GASB Statement No. 34 permits the omission of comparative information in the first year of adoption of the new reporting model and, due to the financial resources necessary to prepare the comparative information for the prior year; the Authority has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lincoln Downtown Development Authority financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Authority's governmental funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for the General Fund

Lincoln Downtown Development Authority Management's Discussion and Analysis

Financial Highlights

- The assets of the Lincoln Downtown Development Authority exceeded its liabilities at the close of the most recent fiscal year by \$375,931(*net assets*). Of this amount, \$243,173(*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Lincoln Downtown Development Authority's total net assets increased by \$69,320.
- The Lincoln Downtown Development Authority provided services of \$93,874 in governmental activities during the year ended April 30, 2008.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$243,173 or 259 percent of total general fund expenditures and operating transfers to other funds in comparison to \$167,278 at the close of the prior year, an increase of \$75,895.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Lincoln Downtown Development Authority's basic financial statements. The Lincoln Downtown Development Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Lincoln Downtown Development Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Lincoln Downtown Development Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Lincoln Downtown Development Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Lincoln Downtown Development Authority that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Lincoln Downtown Development Authority include legislative, general government, culture and recreation.

Lincoln Downtown Development Authority Management's Discussion and Analysis

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Lincoln Downtown Development Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Lincoln Downtown Development Authority can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Lincoln Downtown Development Authority maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the general funds' budget comparisons.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Lincoln Downtown Development Authority, assets exceeded liabilities by \$375,931 at the close of the most recent fiscal year.

A large portion of the Lincoln Downtown Development Authority's net assets \$132,758 (36 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Lincoln Downtown Development Authority uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Lincoln Downtown Development Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

	Governmental Activities 2008	Total 2008
Current and other assets	\$ 259,373	\$ 259,373
Capital assets	132,758	132,758
Total Assets	<u>392,131</u>	<u>392,131</u>
Current liabilities	16,200	16,200
Noncurrent liabilities	-	-
Total liabilities	<u>16,200</u>	<u>16,200</u>
Net assets:		
Invested in capital assets, net of related debt	132,758	132,758
Restricted	-	-
Unrestricted	<u>243,173</u>	<u>243,173</u>
Total net assets	<u>\$ 375,931</u>	<u>\$ 375,931</u>

The balance of unrestricted net assets \$243,173 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Lincoln Downtown Development Authority is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$69,320 during the current year. Governmental activities experienced an increase of \$75,895 in net assets during the current fiscal year. While property tax revenue was up, the decrease in expenditures is what attributed to the increase in revenue over expenses.

	Governmental Activities 2008	Total 2008
Revenues:		
Program revenues:		
Charges for services	\$ 783	\$ 783
General revenues:		
Property taxes	159,982	159,982
Other	2,429	2,429
Transfers	-	-
Total revenues	<u>163,194</u>	<u>163,194</u>

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

	Governmental Activities 2008	Total 2008
Expenses:		
General government	\$ 93,874	\$ 93,874
Total expenses	<u>93,874</u>	<u>93,874</u>
Change in net assets	69,320	69,320
Net assets – beginning	<u>306,611</u>	<u>306,611</u>
Net assets – end	<u>\$ 375,931</u>	<u>\$ 375,931</u>

Cost of Services – Governmental Activities

	Total Cost of Services 2008	Program Revenues 2008	Net Cost of Services 2008
Functions/Programs			
General government	<u>93,874</u>	<u>783</u>	<u>(93,091)</u>
Total expenses	<u>\$ 93,874</u>	<u>\$ 783</u>	<u>\$ (93,091)</u>

REVENUES

Property taxes continue to be our largest source of revenue. We had a substantial increase again this fiscal year. The total taxable value on all real and personal property amounted to \$9,733,159 for the fiscal year 2007-2008.

Lincoln Downtown Development Authority Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Lincoln Downtown Development Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Lincoln Downtown Development Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Lincoln Downtown Development Authority's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Lincoln Downtown Development Authority's governmental funds (general fund) reported ending fund balances of \$243,173, an increase of \$75,895 in comparison with the prior year. All of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

General Fund Budgetary Highlights

There were no differences between the original budget and the final amended budget.

Capital Asset and Debt Administration

Capital Assets. The Lincoln Downtown Development Authority's investment in capital assets for its governmental and business type activities as of April 30, 2008, amounts to \$132,758 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment.

	Governmental Activities 2008	Total 2008
Historical cost:		
Land	\$ 122,801	\$ 122,801
Buildings and improvements	-	-
Equipment	46,021	46,021
	<u>168,822</u>	<u>168,822</u>
Accumulated depreciation:	<u>36,064</u>	<u>36,064</u>
Net capital assets	<u>\$ 132,758</u>	<u>\$ 132,758</u>

**Lincoln Downtown Development Authority
Management's Discussion and Analysis**

Economic Factors and Next Year's Budgets and Rates

- The fiscal year end 2008 county wide unemployment rate is 10.1 percent compared to 6.6 percent for the state.
- There has been an increase in Property Tax Revenue.
- The Authority has new developmental projects that will have a positive impact on their economy.
 1. The Lincoln Downtown Development Authority Board of Trustees has set of goal of attracting two new businesses in vacant buildings. In addition they would like to add a motel and full service gas station to the District.
 2. The Lincoln Downtown Development Authority is also involved in various beautification projects which include demolition of a building, improving the exterior appearances of vacant buildings, and developing a new street scape.

During the current fiscal year, unreserved fund balance in the general fund is estimated to be \$225,000. Per the Boards, the Authority must maintain a minimum fund balance of 10% of expenses, but strive to increase it to 15%. The final projected fund balance was \$136,156 for 2008 but the actual fund balance was \$243,173 a difference of \$107,017.

Requests for Information

This financial report is designed to provide a general overview of the Lincoln Downtown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Lincoln Downtown Development Authority Treasurer, 652 N. Barlow Road, Lincoln, MI 48742.

Lincoln Downtown Development Authority

STATEMENT OF NET ASSETS

April 30, 2008

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 99,391
Receivables (net of allowance for uncollectible accounts)	159,982
Internal balances	-
Due from other governmental units	-
Advance to other governmental units	-
Capital assets	168,822
Accumulated depreciation	<u>(36,064)</u>
Total assets	<u>392,131</u>
LIABILITIES	<u>16,200</u>
NET ASSETS	
Invested in capital assets, net of related debt	132,758
Unrestricted	<u>243,173</u>
Total net assets	<u><u>\$ 375,931</u></u>

The accompanying notes to financial statements are an integral part of this statement.

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Lincoln Downtown Development Authority

STATEMENT OF ACTIVITIES

For the Year Ended April 30, 2008

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Functions/Programs:</u>				
Primary Government:				
Governmental activities:				
General government	\$ 93,874	\$ 783	\$ -	\$ -
Total governmental activities	<u>93,874</u>	<u>783</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 93,874</u>	<u>\$ 783</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes, levied for general purposes				
Investment earnings				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning of the year				
Net assets - end of the year				

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (93,091)	\$ -	\$ (93,091)
(93,091)	-	(93,091)
(93,091)	-	(93,091)
159,982	-	159,982
2,429		2,429
162,411	-	162,411
69,320	-	69,320
306,611		306,611
\$ 375,931	\$ -	\$ 375,931

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

BALANCE SHEET - GOVERNMENTAL FUNDS

April 30, 2008

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 99,391
Receivables (net of allowance for uncollectible accounts)	<u>159,982</u>
Total assets	<u><u>\$ 259,373</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	<u>\$ 16,200</u>
Fund Balances:	
Unreserved	
Undesignated	<u>243,173</u>
Total fund balances	<u>243,173</u>
Total liabilities and fund balances	<u><u>\$ 259,373</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of April 30, 2008

Fund balances - Total governmental funds		\$	243,173
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.			
Governmental capital assets	\$	168,822	
Less accumulated depreciation		<u>(36,064)</u>	
			<u>132,758</u>
Net Assets of Governmental Activities		\$	<u><u>375,931</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended April 30, 2008

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
REVENUES	
Taxes	\$ 159,982
Interest and rents	2,429
Other	783
Total revenues	<u>163,194</u>
EXPENDITURES	
General government	87,299
Capital outlay	-
Total expenditures	<u>87,299</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	75,895
FUND BALANCES , beginning of the year	<u>167,278</u>
FUND BALANCES , end of the year	<u>\$ 243,173</u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended April 30, 2008

Net change in fund balances - Total governmental funds		\$	75,895
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Expenditures for capital assets	\$	-	
Less current year depreciation		<u>(6,575)</u>	(6,575)
Less donated capital assets			<u>0</u>
Change in Net Assets of Governmental Activities		\$	<u><u>69,320</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of Lincoln Downtown Development Authority conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

A. Reporting Entity.

Description of Authority Operations. Lincoln Downtown Development Authority is a political entity situated within the County of Alcona which is located in the northeastern region of the lower peninsula of Michigan. The governing body of the Authority is the Authority Board, composed of the president, the secretary, the treasurer, and four trustees. The Authority President acts as the chief administrative and executive officer.

The Authority provides services to its citizens in general government. Revenues for these services are provided chiefly by taxes.

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

C. Basis of Presentation.

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Authority are recorded in separate funds and account groups, described as follows:

Governmental Fund Types. General Fund. This fund includes the general operations of the Authority and transactions not included in other funds. The revenues of this fund are derived primarily from property taxes and state shared revenues.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

D. Measurement Focus/Basis of Accounting.

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Lincoln Downtown Development Authority conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds. The Governmental Fund Types (General) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Cash and Cash Equivalents. For purposes of these financial statements, cash equivalents include time deposits, certificates of deposit, and all other highly liquid deposits with maturities of three months or less.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings - 40 years
Office Equipment - 5 to 7 years
Computer Equipment - 3 to 7 years

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Property Taxes. Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. The taxes are due on February 14 with the final collection date of February 28 before they are added to the delinquent County of Alcona tax rolls. Assessed values are established annually and are equalized by the State at an estimated 50% of current market value. Property in Lincoln Downtown Development Authority for the 2007 levy was assessed at a taxable value of \$9,733,159.

By agreement with the County of Alcona, delinquent real property taxes are purchased by the County of Alcona. The proceeds from the County's purchase of the delinquent taxes are used to liquidate the Authority's delinquent real property taxes receivables.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the Authority. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the operating budget, Authority departments prepare and submit their proposed operating budgets commencing the following May 1. A public hearing is conducted to obtain taxpayer comments. Prior to April 30, the budget is adopted by the Authority Board. Budgeted amounts are as originally adopted, or as amended by the Authority Board during the year. Unused appropriations at April 30, are not carried forward to the following year. The budget for the year ended April 30, 2008 was adopted on a functional basis.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Local Unit's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Lincoln Downtown Development Authority for these budgetary funds were adopted on a function level.

Accumulated Fund Deficits. Lincoln Downtown Development Authority had no funds with an accumulated fund balance/retained earnings deficit at April 30, 2008.

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS.

The Authority maintains separate cash accounts for each of its funds. Cash is not pooled.

For the year ended April 30, 2008 the carrying amount of the Authority's deposits with financial institutions was \$99,391 and the bank balance was \$119,391. Of the bank balance, \$100,000 was covered by federal depository insurance (FDIC).

Statutes authorize the Authority to invest as follows:

- (a) In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the federal deposit insurance corporation or a credit union which is insured by the national credit union administration, but only if the bank, savings and loan association or credit union is an eligible Michigan depository.
- (c) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. No more than 50% of any fund may be invested in commercial paper at any time.
- (d) In United States government or federal agency obligation repurchase agreements.
- (e) In bankers' acceptances of United States banks.
- (f) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

NOTE 4--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	Primary Government			
	Balances May 1, 2007	Additions	(Deletions)	Balances April 30, 2008
Governmental activities:				
Historical cost:				
Land	\$ 122,801	\$ -	\$ -	\$ 122,801
Buildings and improvements	-	-	-	-
Equipment	46,021	-	-	46,021
	<u>168,822</u>	<u>-</u>	<u>-</u>	<u>168,822</u>
Allowance for depreciation:				
Buildings and improvements	-	-	-	-
Equipment	29,489	6,575	-	36,064
	<u>29,489</u>	<u>6,575</u>	<u>-</u>	<u>36,064</u>
Net Capital Assets	<u>\$ 139,333</u>	<u>\$ 6,575</u>	<u>\$ -</u>	<u>\$ 132,758</u>

Lincoln Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

NOTE 5--RISK MANAGEMENT.

The Authority is exposed to various risks of loss related to property loss, torts, errors, and omissions. The Authority has purchased commercial insurance for equipment, tort claims, certain property and equipment damage and theft, and limited tort claims for specific Authority events.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

REQUIRED SUPPLEMENTARY INFORMATION

Lincoln Downtown Development Authority

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended April 30, 2008

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 99,548	\$ 99,548	\$ 159,982	\$ 60,434
Interest and rents	1,966	1,966	2,429	463
Other	-	-	783	783
Total revenues	<u>101,514</u>	<u>101,514</u>	<u>163,194</u>	<u>61,680</u>
EXPENDITURES				
General government	132,636	132,636	87,299	45,337
Capital outlay	-	-	-	-
Total expenditures	<u>132,636</u>	<u>132,636</u>	<u>87,299</u>	<u>45,337</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	<u>(31,122)</u>	<u>(31,122)</u>	<u>75,895</u>	<u>107,017</u>
FUND BALANCES, May 1	<u>167,278</u>	<u>167,278</u>	<u>167,278</u>	<u>-</u>
FUND BALANCE, April 30	<u>\$ 136,156</u>	<u>\$ 136,156</u>	<u>\$ 243,173</u>	<u>\$ 107,017</u>



Certified Public Accountants

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TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.

To the Authority Board
Lincoln Downtown Development Authority
Lincoln, Michigan

We have completed our engagement of the audit of the financial statements of the Lincoln Downtown Development Authority (the "Authority") for the year ended April 30, 2008. In addition to our audit report, we are providing the following:

Letter of increased audit communications as prescribed by Statement on Auditing Standards (SAS) 112

Letter of required audit communication, as prescribed by SAS 114

Other recommendations and informational comments which impact the Authority

	<u>Page</u>
Internal Control Communications (SAS 112 Letter)	2
Audit Communications (SAS 114 Letter)	4

We commend the Authority for its excellent recordkeeping system and appreciate the opportunity to serve the Lincoln Downtown Development Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

December 19, 2008



Certified Public Accountants

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INTERNAL CONTROL COMMUNICATIONS

To the Authority Board
Lincoln Downtown Development Authority
Lincoln, Michigan

New auditing rules have resulted in changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the Authority board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln Downtown Development Authority as of and for the year ended April 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lincoln Downtown Development Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We wish to thank the Board of the Lincoln Downtown Development Authority for their assistance during the audit.

This report is intended solely for the information and use of the management, the Authority Board, and others within the organization, and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the Lincoln Downtown Development Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley, Isley & Lamp

December 19, 2008



Certified Public Accountants

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TAX, AUDIT AND BUSINESS CONSULTANTS

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AUDIT COMMUNICATIONS

To the Authority Board
Lincoln Downtown Development Authority
Lincoln, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln Downtown Development Authority for the year ended April 30, 2008, and have issued our report thereon dated December 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

As stated in our engagement letter dated February 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Lincoln Downtown Development Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Lincoln Downtown Development Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on February 1, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Lincoln Downtown Development Authority are described in Note 1 to

the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended April 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the Authority Board)

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

Other Matters

1. Recent Pronouncements. The Governmental Accounting Standards Board and Michigan Department of Treasury, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Lincoln Downtown Development Authority maintains its financial records:

A. GASB Statement No. 49 Accounting and Financial Reporting for Pollution Remediation Obligations. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the Authority to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the Authority for the year ended April 30, 2009.

B. GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets. This statement establishes consistent standards as to whether intangible assets including easements, timber rights, and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the Authority for the year ended April 30, 2010.

C. GASB Statement No. 52 Land and Other Real Estate Held as Investments by Endowments. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the Authority for the year ended June 30, 2009.

2. Issues Likely to Impact Governments.

A. Government Deposit Insurance. Under Michigan Law, governmental units, including Downtown Development Authority's, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of a government's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by a government in a particular insured depository institution within the State are added together and insured up to \$250,000 (until December 31, 2009). Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to \$250,000. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We encourage the Authority to perform the necessary due diligence to assure itself that it has the protection and coverage it desires to protect its public funds.

We wish to thank the staff of the Lincoln Downtown Development Authority for their assistance during the audit.

This report is intended solely for the information and use of Lincoln Downtown Development Authority Board, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We commend the Authority for its excellent recordkeeping system and appreciate the opportunity to serve the Lincoln Downtown Development Authority. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley, Isley & Lamp

December 19, 2008